APPENDIX 3: Fiscal Impact Analysis

Prepared by Connery and Associates – February 23, 2009

Lexington Technology Park
Lexington Massachusetts
Proposed Expansion
Fiscal Impact Overview

February 20, 2009

1.0 Overview.

The objective of this memorandum is to provide an estimate of the most likely fiscal characteristics of a proposal by Patriot Properties Lexington LLC to construct an additional 380,000 gross square feet of office/research space within the Lexington Technology Park.

This memorandum compares the additional estimated annual gross municipal revenue to the additional estimated annual municipal service cost. Accordingly, we will estimate the annual net fiscal loss or gain associated with the proposal; the addition of 380,000 gross square feet of office/research space. The estimate is expressed in terms of a municipal cost to municipal revenue ratio (revenue ratio) and as an estimated annual net dollars loss or gain. For the purposes of this analysis we have used the current tax rate for commercial properties in Lexington and Fiscal Year 2009 operating budget data as approved by the most recent Town Meeting. In most instances, large numbers have been rounded for ease of reading.

2.0 Summary of Methodology

Municipal service cost associated with commercial use is almost always significantly lower than municipal service costs associated with residential uses since there are no education costs, which typically represent 55% to 65% of a municipal operating budget. Further, many traditional municipal services such as road maintenance, lighting, trash collection, and snow plowing are provided privately by self contained commercial endeavors such as the Lexington Technology Park. Therefore, the traditional Department of Public Works costs are minimized or non-existent. Additionally, in Lexington municipal service costs related to water and sewer services are addressed via enterprise accounts which essentially create a pay as you use system and do not impact the property tax resources and therefore are not part of the annual comparison of cost and revenue. Further, short term municipal project review and management costs associated with the building department or planning department are addressed as either building permit fees ($15/$1,000 of estimated construction cost) or peer review fees paid to the Town of Lexington.

Accordingly, the primary source of additional municipal service cost, in this instance, will relate to public safety services (police and fire). To estimate the potential increase in public safety costs we examined the current public safety service cost associated with commercial use in Lexington and assigned a pro-rata share to the proposed new building (see Appendix 1).

As for the revenue side of the ledger, we ascertained the assessed value per square foot of the current uses within the Lexington Technology Park and applied said values, (plus a 15% increment for new building value) to arrive at an estimated assessed value per square foot for the proposed buildings. We understand that our estimate of assessed value is likely to be at the low end of the possible assessment range and that with a higher increment of research use in the proposed buildings, beyond the currently estimated 50/50 split, the assessed value per foot would likely be higher. However, to purposefully generate a more prudent revenue estimate at this stage of the public discussion we have not projected the potential for increased revenue assuming the buildings may potentially be used for 90% to 100% research purposes.

3.0 Summary of Findings

- **Generates $1,612,625 (current dollars) in gross annual revenue at project completion.**
- **Generates an annual *net* fiscal benefit of approximately $1,304,000. With a cost to revenue ratio of 0.19 the annual revenue generation is five times greater than the annual municipal service cost.**
- **Expands Lexington's total assessed commercial valuation by approximately $66 million dollars (current dollars).**
- **With the proposed additional development Lexington Technology Park will, over a 20 year period, yield more than $100,000,000 in property taxes.**
- **Provides a strong positive net fiscal benefit that will be sustainable for the long term.**

4.0 Municipal Service Cost

Table 1 below illustrates the estimated impact of the project on Lexington's Police and Fire departments. There are a number of methods that can be used to estimate the associated municipal service cost. We have identified the police and fire departments as the only two municipal services which will incur long term annual costs as a result of this development. In our analysis, we have determined the overall departmental cost to the Police and Fire Departments by utilizing the methodology found in the Fiscal Impact

Handbook by Burchell and Listokin. This approach assigns estimated service cost to municipal operating budgets (see Appendix 1 for further details).

To employ the above noted estimating technique it is necessary to know the current amount of commercial real estate in the community and the percent of expansion represented by the proposal. The Town of Lexington currently has approximately four (4) million square feet of commercial and industrial space[1]. Table 1 below illustrates the current police and fire services budgets and using the technique noted above estimates the service cost assigned to commercial uses.

Burchell and Listokin (see Appendix 1) estimate that 35-90% of the overall budgets of public safety departments (police and fire) are utilized supporting "commercial uses." According to this report, retail requires up to three times the municipal police and fire service cost as non-retail uses (per square foot). Given the non retail nature of the proposal and the fact that it is essentially an addition to an existing commercial area we applied the low end of the estimated service range (35%).

Table 1 Estimated Service Costs for Police and Fire Services

Department	FY09 Budget	% currently assigned for commercial use at 35%
Police	$5,021,000	$1,757,350
Fire	$4,751,000	$1,662,850
Totals	$9,722,000	**$3,420,200**

The proposal to add 380,000 square feet of floor space to the Lexington Technology Park represents approximately a 9% increase in Lexington's total commercial space, in the broad sense of the term. Accordingly, a 9% expansion of public safety costs associated with commercial development will be approximately $308,000 per year based on the estimated current service cost of $3,420,000 for commercial uses in the community. Translated into terms of public safety personnel, the estimated service cost equates to approximately 4 additional entry level public safety officers (police or fire).

Based on our regional experience with fiscal impact analyses, we believe the above noted service cost estimate is conservative and represents the high end of the service cost range. Application of general models tends not to fully take into account the particulars of the site. In this instance, the excellent highway access and essentially established nature of the site and community are undervalued. However, to provide the Town of Lexington with a fiscally cautious initial service cost estimate we have used the estimated annual service cost estimated noted above.

1. Lexington Master Plan 2002 records 3.8 million square feet.

5.0 Revenue Generation and Net Fiscal Impact

To estimate the revenue that will be generated by the construction of this project we examined the total assessed value of the following existing buildings in the Lexington Technology Park (125 Spring Street, 300 Patriot Way, and 500 Patriot Way). The three properties owned by Patriot Partners, LLC represent 292,683 square feet of development and have an assessed combined assessed value of $44,302,700 or approximately $151 per square foot. Given our assumption that new buildings will be valued at least 15% higher we have employed an estimated assessed value of $175 per square foot. As noted, if the new buildings have more research and high tech uses rather than office use, the assessment would likely be higher.

At said value, the proposed 380,000 square foot addition to the Lexington Technology Park will have an estimated assessed value of approximately $66,500,000 at project completion (current dollars). Given the current $24.25 commercial tax rate, the proposal at completion will generate approximately $1,612,625 in annual property taxes (current dollars).

Table 2 below illustrates the anticipated net fiscal impact using the conservative (high) service cost estimates of section

Table 2. Net Fiscal Impact

Lexington Technology Park	Estimated Annual Revenue	Estimated Annual Service Cost	Estimated Net Fiscal Benefit	Cost to Revenue Ratio
380,000 sf. of new research/ office space	$1,612,625	$308,000	**$1,304,625**	0.19

As shown in Table 2, above, the proposal will generate a net annual fiscal benefit of approximately $1,304,625 (current dollars) at completion and stabilization. The proposal has a cost to revenue ratio of 0.19 meaning that for every dollar of revenue received it will cost the Town of Lexington 19 cents in service costs. The remaining 81 cents of every revenue dollar is net revenue that can be applied to a variety of municipal purposes.

6.0 Lexington Technology Park 2004 to 2009

Our initial estimate of assessed valuation in January 2004 was $50,000,000. This estimate was based on the low percentage of use at the site at the time and conservative estimates of value. In 2007 with new leases and investment the valuation estimate was revised to $99,000,000. Said estimate reflected an average assessed value per square foot of

approximately $151; essentially the current valuation per foot (see Section 5.0 above). Adding an additional 380,000 gross square feet, as described in this report, will add an additional 66 million dollars in assessed valuation and bring the estimated assessed value to approximately $165,000,000 (current dollars) by the time of project build out in approximately 2020. The actual dollar values associated with assessed value will likely continue to expand in years beyond 2020.

Table 3 below summarizes the changes to the estimates of property taxes for Lexington Technology Park given the initial starting point, improvements made in 2007, and the proposed addition of 380,000 square feet of space in 2009.

Table 3. Estimate of Property Taxes to be paid 2009-2029

Tax Estimate Year Made	Factors	Total Taxes Paid Over 20 years
2004	Initial year; reflecting on site conditions	**$50,000, 000**
2007	Reflecting approved improvements (1)	**$70,000,000**(1)
2009	Reflects 2007 improvements plus 380,000 additional sf.	**$100,000,000** (2)

(1) Taxes paid over 20 years after TIF deducted from proposed 2007 Improvements.

(2) Assumes additional taxes to be paid on proposed 2009 additions, Assumes a 1% increase in annual taxes paid for new space.

We find that the Lexington Technology Park exhibits a strong and clear capacity to significantly expand its traditional role as one of the key components of Lexington's commercial and overall tax base.

Appendix 1

The following data was derived from Exhibit 6-4 Typical Impact of Commercial Uses on Various Public Service Categories: Fiscal Impact Handbook Burchell and Listokin, Chapter 6 Proportional Valuation Fiscal Impact Method.

Service Category	Percent Range	Mid-Point, %
General Government	4 to 6	6
Public Safety	35 to 90	75
Public Works	10 to 20	15
Health and Welfare	1 to 3	2
Recreation and Culture	1 to 3	2

In the report, the general Public Safety category was divided into two categories; police, fire services. It is important to note that in the above referenced handbook commercial development is divided into two major categories with retail uses generating as much as three times the cost per square foot as office / research use. The upper end of the range is essentially designed to model the impact of large retail shopping centers and the low end the non retail activities. Given the non retail nature of the proposal and the fact that it is essentially an addition to an existing commercial area we applied the low end of the estimated service range i.e. 35%. Even at this level, it is likely that the above model overestimates the annual service cost since it cannot take into account private security personnel, modern fire suppression and monitoring systems, and most importantly the established nature of the project area. Further, all required bi-annual safety inspections are covered in full or in part by inspection fees and not reflected in the model.

As noted in the Fiscal Impact Handbook, "the analyst must temper his distribution of aggregate municipal costs with the kinds of services provided locally. He must also take into account the potential assumption of typically public services by the private facility"

In the instance of the Lexington Technology Park, its location along a major highway, the expansion being within an existing and established research park; the fact that it does not create a new police or fire service zone, along with the fact that office /research uses generate considerably less service cost than retail centers are the reasons for applying the lower end of the cost scale to the proposed expansion of the Lexington Technology Park.

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